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The Department of Social and Health Services, Aging and Disability Services Administration, does not have sufficient internal controls to ensure it is complying with both subrecipient monitoring and matching requirements for the Medicaid Program.

Background

State agencies often distribute federal funds to other organizations that provide services needed to accomplish federal program objectives. These organizations are known as subrecipients, while the state agencies are called pass-through agencies. To help ensure that funds are spent appropriately, the federal government requires pass-through agencies to monitor the activities of subrecipients to provide reasonable assurance that they are complying with federal requirements. Monitoring requirements are contained on OMB Circular A-133. Monitoring may take various forms such as reviewing reports submitted by subrecipients, regular contact, and performing on-site reviews of subrecipient financial and program records and operations. According to OMB Circular A-133, factors that may affect the nature, timing, and extent of during-the-award monitoring include program complexity, percentage passed through, and amount of awards.

The Aging and Disability Services Administration, as a pass-through agency, has subrecipient contracts with the Area Agency on Aging in many counties. Through these contracts, skilled medical professionals provide services to Washington's elderly, either directly or in consultation with county health departments. Federal regulations permit the use of Medicaid matching funds (called Federal Financial Participation) to reimburse states for 75 percent of the costs of salaries, benefits and training of skilled medical professionals. During fiscal year 2004, the Administration paid the Agencies \$2,521,624 for these costs and received back \$1,891,218 (75 percent) in federal matching funds.

Description of Condition

We reviewed the controls related to monitoring of Medicaid funds at the Agencies. We found clear and well-written monitoring procedures. However, the monitoring actually performed is not sufficient to ensure that the Administration's reimbursements to the Agencies for its skilled medical professionals are accurately calculated. Specifically, we found:

- Agencies do not submit supporting documentation with reimbursement requests.
- The Administration actually reviews each Agency's expenditures on-site only once every three years. Monitoring through reporting and regular contacts is done throughout each year.
- Because the department targets the scope and frequency of its on-site monitoring based on an assessment of risk, not all areas of the contract are monitored. The review procedures do not include an evaluation of whether the skilled medical professionals listed in the budget are actually working for the Agency.

Cause of Condition

The Administration stated that a lack of resources prevents it from performing a more thorough review of the Agencies.—The department follows the requirements of OMB Circular A-133 in performing its review of the Agencies. Per this circular, “Monitoring activities normally occur throughout the year and may take various forms, such as reporting, site visits and regular contact.” Resources allow for on-site monitoring every three years. Monitoring through reporting and regular contact occur throughout each year.

Effect of Condition

The Administration does not have reasonable assurance that:

- Agencies are complying with federal requirements.
- Agency claims for reimbursement are calculated correctly and adequately supported.
- The 75 percent match it receives from federal funds for skilled medical professionals is based on accurate data. In fiscal year 2003, this match amount was \$1,891,218.

Recommendations

We recommend the Department devote the resources necessary to ensure compliance with subrecipient monitoring and matching requirements.

Department's Response

The Department partially concurs with this finding.

The department currently follows the requirements of OMB Circular A-133 in performing its review of the agencies. Per this circular, “Monitoring activities normally occur throughout the year and may take various forms, such as reporting, site visits, and regular contact.” Current resources allow for on-site monitoring every three years,

although monitoring through review of financial and performance reports submitted by the subrecipient and through regular contact occurs throughout each year.

- **The Administration does not prepare written risk assessments to use as a basis for the degree of monitoring it performs.** Attached are the fiscal and program assessment tools used to determine the degree of monitoring performed. The department targets the scope and frequency of its on-site monitoring based on these assessments of risk. The purpose of the Risk Assessment Tool is to assist in the process of prioritizing contract monitoring activities. The tool is used as the means to evaluate potential exposure to the chance of harm or loss that could arise from an activity or service. The column on the left lists actual programs/services, while the row across the top lists the areas to be considered for each program/service. The tool can be modified to evaluate as many areas as needed. Each area is considered for each program/service and whenever there is a perceived issue an “X” is placed in the appropriate box. In the end, each “X” is tallied in the far right column. The programs/services with the highest totals are then to be considered as priority areas for future contract monitoring activities and technical assistance focus. Interventions are targeted to specific risk factors in each Area Agency on Aging.



Area Plan 04 review
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Contracttool
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Risk Assessment
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- **Agencies do not submit supporting documentation with reimbursement requests.** While the Area Agency on Aging (AAA) is not required to send in documentation with their reimbursement requests, we feel there are controls in place, as follows:
 1. The AAAs submit detailed budget documents, including a staff listing of all Registered Nurses, prior to contract approval for these costs. Often, the negotiation of these budgets involves many discussions between the AAA and State Unit on Aging (SUA) regarding the make up of all the costs of the AAA. Since July 1, 2004, subrecipients have been required to submit quarterly reports of filled and vacant positions.
 2. Minimum nursing-to-client ratios are established as a requirement of the subrecipient contracts.
 3. Reports of nursing services, including number of clients served and number of contacts, are provided on a monthly basis and compared against historical performance levels.
 4. All AAA billings are reviewed against the budget documents monthly by the fiscal staff and are reviewed and approved by the State Unit on Aging liaison, who has a working knowledge of the AAA staff and services being provided.

5. The Budgeting, Accounting and Reporting System (BARS) manual and the Long Term Care Manual dictate the standards for the Nursing Services program and the AAA contract stipulates that the AAA must follow these requirements.
 6. The Home and Community Services nursing services manager frequently meets with local office nursing staff to provide training and consultation regarding program performance.
 7. Subrecipients are required to have periodic independent audits and the results are submitted to the Aging and Disability Services Administration (ADSA) for review.
- **The Administration actually reviews each Agency's expenditures on-site only once every three years.** While fiscal staff only go on-site every three years, we believe the other processes listed above act as additional monitoring of the contracts and payments, as required in A-133. This circular states that monitoring activities normally occur throughout the year and may take various forms. The attached risk assessment tools guide decisions regarding on-site monitoring needs.
 - **Not all areas of the contract are monitored. The review procedures do not include an evaluation of whether the skilled medical professionals listed in the budget are actually working for the Agency.** Because of the other controls that are in place, this area of expenditure is considered to be extremely low-risk. Factors such as program complexity, percentage passed through, and amount of awards may affect the nature, timing, and extent of during-the-award monitoring. The Nursing Services program is only five percent of the total pass-through expenditures to these contractors. In each of the past five years the Home and Community Services Quality Assurance Unit or the State Unit on Aging has completed program monitoring, which included review of the work performed by the nurses who work for the Area Agencies on Aging. These reviews include detailed analysis of program performance requirements. For example, in 2002 this unit audited three percent of the Area Agencies on Aging client caseload, and in those cases where a case manager had referred their client to the agency nursing staff, we did monitor to determine that the nurse followed up on this referral within an appropriate time frame. We evaluated what action they took and if it was sufficient to address the issue identified.

Home and Community Services Quality Assurance unit is currently in another audit cycle. We are reviewing four percent of the Area Agencies on Aging caseload where we are continuing to monitor that case managers are referring to the nurses on staff and that the nurse is responding appropriately. Performance results on quality assurance measures are routinely reported to management staff at ADSA and the AAA for follow-up. With the control

measures listed above, there is virtually no chance the medical professionals in the budget are not actually working.

- **We recommend the Department devote the resources necessary to ensure compliance with subrecipient monitoring and matching requirements.** If the fiscal and program assessment tools identify a need for enhanced monitoring, the Administration will request additional resources in the future.

Auditor's Concluding Remarks

Applicable Laws and Regulations

The United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Section .400(d) states, in part, that a pass-through entity shall perform the following:

3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements....

The Code of Federal Regulations (CFR) describes at Title 42, Section 432.50 the conditions under which federal financial participation (FFP) can be claimed in this case:

FFP: Staffing and training costs.

(a) Availability of FFP. FFP is available in expenditures for salary or other compensation, fringe benefits, travel, per diem, and training, at rates determined on the basis of the individual's position, as specified in paragraph (b) of this section.

(b) Rates of FFP.

(1) For skilled professional medical personnel and directly supporting staff of the Medicaid agency or of other public agencies (as defined in Sec. 432.2), the rate is 75 percent....

(d) Other limitations for FFP rate for skilled professional medical personnel and directly supporting staff—

(1) Medicaid agency personnel and staff. The rate of 75 percent FFP is available for skilled professional medical personnel and directly supporting staff of the Medicaid agency if the following criteria, as applicable, are met:

(i) The expenditures are for activities that are directly related to the administration of the Medicaid program, and as such do not include expenditures for medical assistance....

(iv) A State-documented employer-employee relationship exists between the Medicaid agency and the skilled professional medical personnel....

(2) Staff of other public agencies. The rate of 75 percent FFP is available for staff of other public agencies if the requirements specified in paragraph (d)(1) of this section are met and the public agency has a written agreement with the Medicaid agency to verify that these requirements are met.